

VEBA Overview

Health reimbursement arrangements (HRAs) for governmental employees in Washington

Save Tax. Keep More.

This brochure contains a general overview of the VEBA Plans (veba.org) and HRA VEBA Plans (hraveba.org) available to governmental employees in Washington. The plan for which you may be eligible depends on your employer type.

- The **VEBA Plans**¹ cover eligible employees/retirees of **state agencies, higher education institutions, community and technical colleges, and K-12 school districts**
- The **HRA VEBA Plans**² cover eligible employees/retirees of **cities, counties, and special purpose districts**

Please note that eligibility to become a plan participant and receive contributions varies by employer. You should check with your employer to find out when you may become eligible to participate and what funding sources may be available to you (read **Eligibility and funding sources** on page 3).

Health reimbursement arrangement

A health reimbursement arrangement (HRA) is an account-based health plan you can use, after becoming claims-eligible, to reimburse your qualified out-of-pocket healthcare costs as defined by the IRS. Common qualified expenses include retiree medical premiums, co-pays, deductibles, prescription drugs, etc. An HRA is not an insurance plan, and you do not pay a premium. Your account is funded with contributions from your employer.

Employer contributions, investment earnings, and withdrawals (claims) are tax-free. Contribution amounts will not be included on Form W-2 from your employer, and you will not receive a Form 1099 for earnings or withdrawals (claims).

Voluntary employees' beneficiary association

A voluntary employees' beneficiary association (VEBA) is a tax-exempt trust instrument that provides employee benefits. VEBAs are authorized under Internal Revenue Code section 501(c)(9). Hundreds of state and local governmental employers in Washington have adopted VEBA programs that offer HRAs. Many are familiar with the term "VEBA" and understand it to mean a benefit plan that reimburses out-of-pocket healthcare expenses and premiums. These plans are actually HRAs as defined by the IRS, but are often referred to as "VEBA" plans.

HRA advantages

An HRA is one of the best ways to cover your out-of-pocket healthcare costs for several reasons:

- You save money by paying zero tax on contributions, earnings, and withdrawals (claims)
- Can be used to cover retiree medical premiums before and after age 65, including Medicare supplement and Medicare Part D premiums
- No annual "use-it-or-lose-it" requirement; unused account balance carries over from year to year
- Does not require coverage under a high-deductible health plan (HDHP)

¹ The VEBA Plan is offered by VEBA Trust, a multiple employer voluntary employees' beneficiary association (VEBA) formed in 1984 and authorized under Internal Revenue Code 501(c)(9). VEBA Trust is managed by a board of trustees appointed by the founding associations. ² The HRA VEBA plan is offered by HRA VEBA Trust, a multiple employer voluntary employees' beneficiary association (VEBA) formed in 1990 and authorized under Internal Revenue Code 501(c)(9). HRA VEBA Trust is managed by a board of trustees elected by the plan participants.

Spouse and dependent coverage

Your spouse and qualified dependents are covered. Generally, dependents must satisfy the IRS definition of "qualifying child" or "qualifying relative" as of the end of the calendar year in which expenses were incurred. Go to your HRA plan's website and click **Covered Dependents** for more details.

Claims and systematic premium reimbursements

You can file claims for expenses incurred after you enroll and become claims-eligible. Simply email, fax, or mail a fully-completed **Claim Form** (and proof of expense) to the third-party administration (TPA) service provider. Standard processing time is seven business days from the date received. Sign up for direct deposit when you enroll to avoid waiting for paper check reimbursements in the mail.

Automatic reimbursement of your retiree medical insurance premiums is available. Just submit a completed **Systematic Premium Reimbursement Form**. Forms are available online or by request from the TPA service provider.

NOTE: If you have a participant account under VEBA or HRA VEBA's Post-separation HRA Plan (read Plan Designs on page 3) and, after separating from service or retiring, become re-employed in any capacity by the employer that made (or is making) contributions to that account, you will not be eligible to file claims to your Post-separation HRA Plan account for expenses you incur while re-employed.

Coordination with HSAs and Medicare

Health savings accounts (HSAs): You can have an HRA and an HSA, and you can use either your HRA (if claims-eligible) or HSA to reimburse your qualified expenses (no ordering rules). But, if you have a claims-eligible HRA and want to become eligible to make or receive contributions to an HSA, you must elect "limited purpose" HRA coverage. Only certain dental, vision, and orthodontia expenses are covered while coverage is limited. You can switch your HRA account back to full coverage after you stop making or receiving HSA contributions (certain limitations may apply). Go to your HRA plan's website and click **Plan Information & Enrollment** to learn more.

Medicare: Medicare is generally primary to your claims-eligible HRA account if you are retired or separated from the employer that made (or is making) contributions to your HRA account. If you are still working, your HRA is generally primary to Medicare unless you have elected limited purpose HRA coverage. Go to your HRA plan's website and click **Plan Information & Enrollment** to learn more.

Premium Tax Credit

Premium Tax Credit: If you purchase insurance through a marketplace exchange and want to qualify for the Premium Tax Credit, you should (1) read the **Facts About Premium Tax Credit Eligibility** handout available on your HRA plan's website under **Quicklinks** and (2) consider whether you will need to first use up, limit, or waive your HRA plan benefits.

How much will I spend on health care during retirement?

PEBB-sponsored health insurance coverage for a retiree and spouse currently averages over \$1,000 per month prior to Medicare. After becoming covered under Parts A and B of Medicare, this amount may decrease to about \$300 per month. The average 60-year-old public employee and spouse retiring today may spend over \$250,000 on health insurance premiums during their retirement years!

IF YOU RETIRE
TODAY AT:

PROJECTED COST OF
RETIREE MEDICAL PREMIUMS³:

Age 55 \$360,000

Age 60 \$287,000

Age 65 \$194,000

³ These projections are based on current average PEBB-sponsored retiree medical premium amounts for public retirees in Washington. The basic assumptions are: (1) employee and spouse retire at age 55, 60, or 65 and live to age 84; (2) both parties enroll in a PEBB-sponsored retiree medical plan (\$1,062/month current average); (3) reduced PEBB retiree medical premium at age 65 for both parties after becoming eligible for Medicare (\$331/month current average); and (4) annual inflation of 5% for PEBB retiree medical premiums.

Eligibility and funding sources

Not all employees/retirees are eligible to participate. After an employer adopts the plan, employee groups (union and/or non-union) typically vote to decide whether to participate. Your eligibility to participate is usually defined by a collective bargaining agreement (or other form of written agreement), employer policy, etc., whichever is applicable. You should check with your employer to find out if you are eligible to participate.

HRA funding sources vary by employer and by employee group. In most cases, your employer contributes funds that would otherwise be paid to you as taxable income. For example, the most common HRA funding source is sick leave cash out at retirement. Other common funding sources (based on employer type) are contained in the chart below. You should check with your employer to find out what funding sources may apply to you.

HRA contributions are tax-free to both you and your employer. Contributions to **tax-deferred** programs, such as an IRA, 457, 401(k), or 403(b) plan, are subject to FICA tax, and federal income tax is only postponed until you make withdrawals. HRAs are exempt from payroll taxes, federal income tax, and most state income taxes. You may save up to \$300 or more in taxes for every \$1,000 contributed to your HRA, depending on your personal income tax bracket. You should consult a professional advisor regarding your personal tax situation.

Common funding sources by employer type⁴:

State Agencies & Higher Education	Community & Technical Colleges	K-12 School Districts	Counties, Cities, & Special Purpose Districts
<ul style="list-style-type: none"> Compensable unused sick leave at retirement 	<ul style="list-style-type: none"> Sick leave cash out at retirement Vacation, personal, and other leave cash outs (for employees not covered by state-wide collective bargaining) Mandatory employee contributions (no individual elections) 	<ul style="list-style-type: none"> Sick leave cash out at retirement Annual sick leave buy back Vacation, personal, other leave cash outs Mandatory employee contributions (no individual elections) 	<ul style="list-style-type: none"> Sick leave, vacation, personal, and other leave cash outs Mandatory employee contributions (no individual elections) Excess monthly benefit dollars or medical opt-out incentives

Plan designs

VEBA Trust and HRA VEBA Trust each offer two plans. You do not need to choose a plan. Your employer will automatically direct its contributions for you to either the **Standard HRA Plan** or **Post-separation HRA Plan**. Generally, this will depend upon your eligibility to enroll in your employer's group health plan and whether you are enrolled in or covered by your employer's group health plan or another qualified group health plan. It could also depend upon the terms of employer policy, collective bargaining agreements, or other factors that may be unique to your employer's HRA program or your employee group.

- **Standard HRA** — In most cases, your employer will direct its contributions for you to the Standard HRA Plan, so long as you are eligible to enroll in your employer group health plan and are either (a) enrolled in or covered by your employer's group health plan or (b) attest that you are enrolled in or covered by another qualified group health plan. HRA accounts for such participants are considered to be "integrated" with their employer's group medical plan. Participants in the Standard HRA Plan can file claims at any time after becoming claims-eligible.
- **Post-separation HRA** — Your employer will direct its contributions for you to the Post-separation HRA Plan if you are not eligible to participate in the Standard HRA Plan or if the Post-separation HRA Plan is utilized for all eligible employees within your employee group. Participants in the Post-separation HRA Plan must first separate from service or retire before becoming eligible to file claims.

You should check with your employer if you are unsure about which plan applies to you.

⁴ Contact your employer or Department of Retirement Systems (DRS) to find out if a particular HRA funding source (employer contribution) is reportable compensation for purposes of computing a retirement benefit.

Becoming a participant

Typically, when you become eligible to participate and receive contributions, your employer will supply you with an **enrollment kit** and ask you to complete and return the Enrollment Form, which will be included with the kit. Your kit will contain important plan information, investment information, and notice of online availability of the Summary of Benefits and Coverage. You must submit a fully completed and signed Enrollment Form to become a plan participant and establish your account. Failure to complete the required Enrollment Form will result in the forfeiture of funds that would have otherwise been contributed on your behalf. IRS rules do not permit individual choice; all employees defined as eligible must participate.

The TPA service provider will send you a **welcome packet** after receiving both your signed Enrollment Form and the first contribution from your employer. Your welcome packet will contain confirmation of your employer's contribution, your participant account number, a Plan Summary, and online account access instructions. It will also confirm to which HRA plan your employer has directed its contribution for you.

Paper **participant account statements** are mailed in January and July; online e-statements are generated quarterly. If you are signed up for e-communication in lieu of paper, quarterly email notification will be sent to you when your e-statements are available online.

Investment options

You can invest your account by choosing either one of two investment options. **Option A: Choose a pre-mix** allows you to select a pre-mixed asset allocation portfolio designed and managed by investment professionals. **Option B: Do-it-yourself** lets you build your own portfolio using any combination of available funds. Go to your HRA plan's website and click **Investments** for more details.

You can change your investment allocation up to once per calendar month. Net investment earnings (or losses) after fund management and plan administrative expenses have been deducted are credited tax-free to your account daily. Fund management fees vary by fund(s) selected and are listed on the **Investment Fund Overview**, which is updated quarterly and available at your HRA plan's website. Fund fact sheets and prospectuses are also available online.

Survivor benefit

If you pass away, remaining funds in your account (if any) may continue to be used by your surviving spouse and qualified dependent(s) to reimburse their eligible healthcare expenses and premiums. Surviving spouses and dependents enjoy the same tax advantages as participants.

In the unlikely event you pass away with an unused account balance and have no eligible survivors, the executor of your estate can spend down your account by filing claims for any unreimbursed healthcare expenses you may have incurred prior to your death. Remaining funds (if any) after all final claims have been reimbursed would then be forfeited and re-contributed per the terms of the Plan document or otherwise applied as directed by your employer. IRS Revenue Ruling 2006-36 does not permit the payment of benefits to non-dependent heirs.

Plan administrative fees

Plan expenses include claims processing, customer service account administration, printing, postage, legal, consulting, local servicing, auditing, etc. These costs are paid by a monthly, per participant fee of \$1.50 (if claims-eligible) or \$1.25 (if not claims-eligible), plus an annualized, asset-based fee of approximately 1.25%. Your account value changes daily based on activity, which includes investment earnings/losses, contribution and claims activity, and assessment of the annualized, asset-based fee.

To the extent permitted or required by law, certain fees, taxes or other assessments payable to the federal government under health care reform law may also be deducted from participant accounts.

Participant account service

Meritain Health, Inc. is the third-party administration (TPA) service provider and is ready to help if you have questions about your account, need forms, or have a claims or systematic premium reimbursement question. Contact Meritain Health at:

VEBA Plan
veba.org
myVEBAPlan@meritain.com
1-888-828-4953

HRA VEBA Plan
hraveba.org
myHRAVEBA@meritain.com
1-888-659-8828

Plan education

VEBA Service Group, a Division of Gallagher Benefit Services, Inc. (VSG) provides education and group enrollment services. To schedule a presentation for your group, contact a VSG office near you:

Spokane
1-800-888-8322

Vancouver
1-877-695-3945

Sumner
1-800-422-4023

Richland
1-855-565-2555